

SAMPLE COUNTY

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2004

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA
Auditor of State**





OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of governmental subdivisions should be performed in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Chapter 11.6 of the Code of Iowa requires a review of internal controls and testing of transactions for compliance.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format shows the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the local government feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the County's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available by calling 1-800-253-0696 (Form number SF-SAC) or on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac/>. Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
Bureau of the Census
P. O. Box 5000
Jeffersonville, IN 47199-5000

The findings on compliance, items IV-A-04 through IV-I-04 and IV-L-04, detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the County. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Beginning with audit reports issued for years ending June 30, 2004, we will be providing internet access to reports issued by CPA firms, to accompany our own reports which are already accessible through the internet. To allow this, you should submit an electronic copy of each FY2004 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the local government for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the local government and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA
Auditor of State

Sample County

Outline of Major Changes

1. Added a Special Revenue Fund and an Agency Fund (included in “Other” column on Schedule 4) to account for the activity of the Recorder’s electronic transaction fee.
2. Changed the format of the Agency Fund schedules.
3. Amended MD&A, Footnote 1D, Budget to GAAP reconciliation, Exhibits C, E, and F in order to report inventories and prepaids using the consumption method.
4. An electronic copy of the audit report, in PDF format, is to be submitted in addition to the required paper copies.

Additional Notes

1. Also attached are a sample Corrective Action Plan for Federal Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Federal Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not required to be bound in the regular audit or filed with our office.
2. The attached sample Corrective Action Plan refers the user to the County’s response to the auditor’s comment for the detailed corrective action planned. If the County’s response to the auditor’s comment does not include the details of its planned corrective action, this information should be included in the Corrective Action Plan itself.
3. If the County has deposits in credit unions at June 30, 2004, Note 2 should be modified to indicate whether the deposits were covered by federal depository insurance, collateralized with securities or letters of credit held by the County or the County’s agent in the County’s name or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.
4. If the County operates a sanitary landfill, disclosure of the closure and postclosure care costs should be included in the notes to financial statements. In addition, findings pertaining to compliance with solid waste fees used or retained and financial assurance should be included in Part IV of the Schedule of Findings and Questioned Costs. See Sample Accrual County Landfill Association or Sample Cash County Solid Waste Management Commission for examples of the required disclosures and findings.
5. Also attached are a sample news release (**Sample C**), sample independent auditor’s report (**Sample D**) and sample footnote (**Sample E**) that should be used if this is the first year of GASB 34 implementation.

Additional Notes (continued)**Sample A**

Sample Entity

Corrective Action Plan for Federal Audit Findings

Year ended June 30, 2004

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-04	Unsupported Expenditures	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Tom Claim, Sample Entity Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Department of Economic Development on October 1, 2004.
III-B-04	Segregation of Duties over Federal Revenues	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Julie Ledger, Sample Entity Treasurer, (515) YYY-XXXX	October 30, 2004
III-C-04	Financial Reporting	As reported in our response to the auditor's comment, we have implemented an independent review process which requires review by the Sample Entity Program Director, effective immediately. In addition, beginning with the December, 2004 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004.

Additional Notes (continued)**Sample B**

Sample Entity

Summary Schedule of Prior Federal Audit Findings

Year ended June 30, 2004

Comment Reference	Comment Title	Status	If not corrected, provide planned corrective action or other explanation
III-C-01 III-B-02 III-B-03	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid; does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding nor has a management decision been issued on their part.
III-A-02 III-A-03	Segregation of Duties over Federal Revenues	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Sample Entity staff.
III-C-02 III-C-03	Fixed Assets	Corrective action taken.	
III-D-03	Financial Reporting	Partially corrected.	Review procedures have been implemented. Timely report filing will begin with the quarter ending December, 2004.

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David A. Vaudt, CPA
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NEWS RELEASE

Contact:

FOR RELEASE _____

Auditor of State David A. Vaudt today released an audit report on Sample County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$_____ for the year ended June 30, 2004, which included \$_____ in tax credits from the state. The County forwarded \$_____ of the local tax revenue to the townships, school districts, cities and other taxing bodies in the County.

The County retained \$_____ of the local tax revenue to finance County operations, a(n) _____ percent increase (decrease) from the prior year. Other revenues included charges for service of \$_____, operating grants, contributions and restricted interest of \$_____, unrestricted investment earnings of \$_____ and other general revenues of \$_____.

Expenses for County operations totaled \$_____, a(n) _____ percent increase (decrease) from the prior year. Expenses included \$_____ for _____a_____, \$_____ for _____b_____ and \$_____ for _____c_____. (a, b, c - functions with three highest expense totals, exclusive of agency remittances)

Additional Notes (continued)**Sample C**

The significant increase (decrease) in revenues and expenses is due primarily to

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.



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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

To the Officials of Sample County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sample County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Sample County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of Sample County at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 13 to the financial statements, during the year ended June 30, 2004, Sample County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2004 on our consideration of Sample County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 48 through 51 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Sample County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

(13) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Amount
Net assets June 30, 2003, as previously reported	\$ 3,039,187
GASB Interpretation 6 adjustments	6,701
Net assets July 1, 2003, as restated for governmental funds	3,045,888
 GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$3,326,397	30,326,647
Internal Service Fund	19,348
Long-term liabilities	(253,466)
Deferral of long-term assets	218,693
 Net assets July 1, 2003, as restated	 \$ 33,357,110



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Expenses for County operations totaled \$_____, a(n) _____ percent increase (decrease) from the prior year. Expenses included \$_____ for _____a_____, \$_____ for _____b_____ and \$_____ for _____c_____. (a, b, c - functions with three highest expense totals, exclusive of agency remittances)

The significant increase (decrease) in revenues and expenses is due primarily to _____.

A copy of the audit report is available for review in the Office of Auditor of State and the County Auditor's office.

#

SAMPLE COUNTY

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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Sample County

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Cassidy	Board of Supervisors	Jan 2005
Bill Hillary	Board of Supervisors	Jan 2005
Jill Bailey	Board of Supervisors	Jan 2007
Tom Claim	County Auditor	Jan 2005
Julie Ledger	County Treasurer	Jan 2007
Susan Stamp	County Recorder	Jan 2007
Kevin Lawman	County Sheriff	Jan 2005
Dennis Lawyer	County Attorney	Jan 2007
Mark Valuer	County Assessor	Jan 2008

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To the Officials of Sample County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sample County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Sample County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Sample County at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 20, 2004 on our consideration of Sample County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 48 through 51 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Sample County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sample County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- ◆ Revenues of the County's governmental activities increased 25.8%, or approximately \$1,223,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$100,000, operating grants and contributions increased approximately \$124,000 and capital grants and contributions increased approximately \$915,000.
- ◆ Program expenses were 5.8%, or approximately \$278,000, more in fiscal 2004 than in fiscal 2003. Roads and transportation expense increased approximately \$258,000.
- ◆ The County's net assets increased 2.6%, or approximately \$858,000, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Sample County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Sample County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Sample County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, interest on long-term debt and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, 3) the Debt Service Fund, and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the County's Internal Service Fund, Employee Group Health Insurance Account. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for drainage districts, emergency management services and the County Assessor, to name a few.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

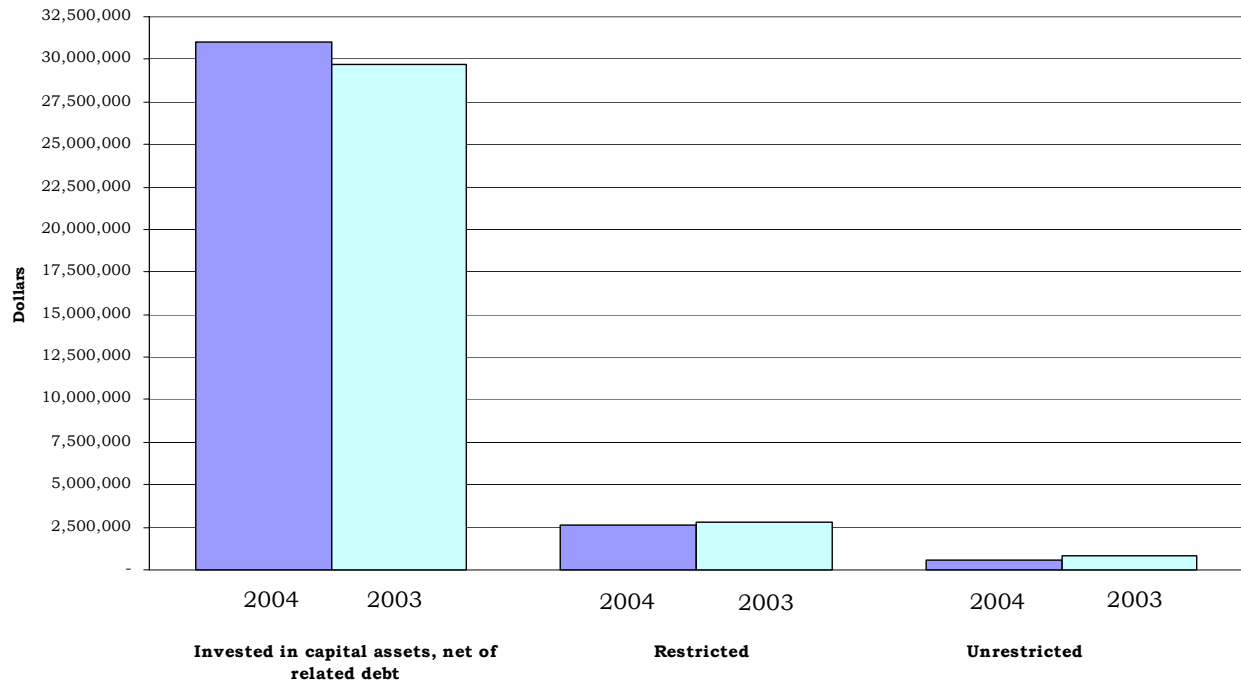
Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Sample County's combined net assets were virtually unchanged from a year ago, increasing from \$33.4 million to \$34.2 million. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)		
	June 30,	
	2004	2003
Current and other assets	\$ 6,155	5,718
Capital assets	31,818	30,327
Total assets	37,973	36,045
Long-term debt outstanding	1,617	252
Other liabilities	2,141	2,436
Total liabilities	3,758	2,688
Net assets:		
Invested in capital assets, net of related debt	31,003	29,720
Restricted	2,601	2,815
Unrestricted	611	822
Total net assets	\$ 34,215	33,357

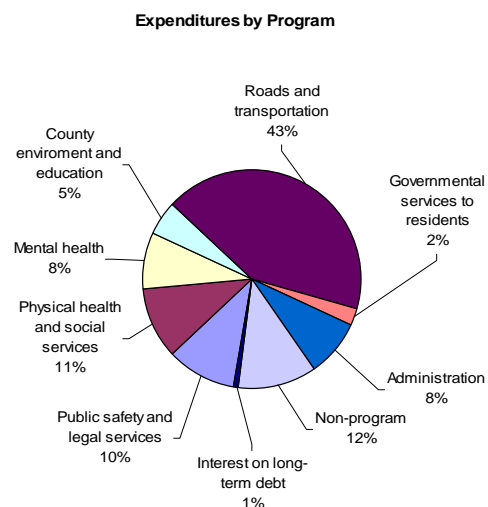
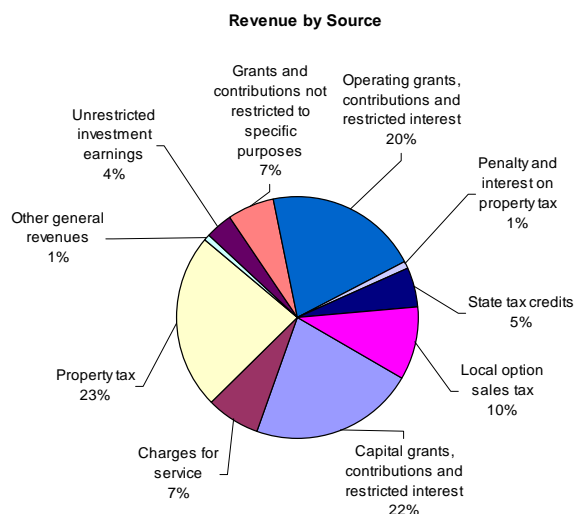
Comparison of Net Assets



Net assets of Sample County's governmental activities increased by less than one percent (\$34.2 million compared to \$33.4 million). The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—decreased from approximately \$822,000 at June 30, 2003 to approximately \$611,000 at the end of this year, a decrease of 25.7 percent.

This reduction of approximately \$211,000 in unrestricted net assets was a result of increased expenditures for roadway maintenance and capital projects. The County increased its investment in roadway equipment and road construction by approximately \$375,000 over the prior year. The County has adopted a five year plan to replace aging equipment and bring all County secondary roads up to the standards established by the County Planning Committee and adopted by the County Board of Supervisors on March 22, 2004.

Changes in Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Revenues:		
Program revenues:		
Charges for service	\$ 438	407
Operating grants, contributions and restricted interest	1,213	1,089
Capital grants, contributions and restricted interest	1,305	390
General revenues:		
Property tax	1,411	1,311
Penalty and interest on property tax	54	49
State tax credits	320	330
Local option sales tax	579	579
Grants and contributions not restricted to specific purposes	393	192
Unrestricted investment earnings	211	251
Other general revenues	45	148
Total revenues	5,969	4,746
Program expenses:		
Public safety and legal services	523	511
Physical health and social services	548	539
Mental health	418	422
County environment and education	263	247
Roads and transportation	2,168	1,910
Governmental services to residents	126	127
Administration	423	417
Non-program	597	647
Interest on long-term debt	45	13
Total expenses	5,111	4,833
Increase (decrease) in net assets	858	(87)
Net assets beginning of year	33,357	33,444
Net assets end of year	\$ 34,215	33,357



Sample County's net assets of governmental activities increased by approximately \$858,000 during the year. Revenues for governmental activities increased by approximately \$1,223,000 over the prior year, with property tax revenue up from the prior year by approximately \$100,000, or 5.3 percent.

The County increased property tax rates for 2004 by an average of 5 percent. This increase, the first in three years, raised the County's property tax revenue by approximately \$100,000 in 2004. Based on increases in the total assessed valuation, property tax revenue is budgeted to increase by an additional \$75,000 next year.

The cost of all governmental activities this year was \$5.1 million compared to \$4.8 million last year. However, as shown in the Statement of Activities on page 19, the amount taxpayers ultimately financed for these activities was only \$2.2 million because some of the cost was paid by those directly benefited from the programs (\$438,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,518,000). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, increased in 2004 from approximately \$1,886,000 to \$2,956,000, principally due to receiving grant proceeds for the completion of the Courthouse renovation project. The County paid for the remaining "public benefit" portion of governmental activities with approximately \$1,990,000 in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

INDIVIDUAL MAJOR FUND ANALYSIS

As Sample County completed the year, its governmental funds reported a combined fund balance of \$3.7 million, an increase of more than \$678,000 above last year's total of \$3.0 million. The increase in fund balance is primarily attributable to a \$1,000,000 general obligation bond issue during the year. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- General Fund revenues and expenditures remained consistent when compared to the prior year. The ending fund balance showed a modest decline of \$97,000 from the prior year to \$1,274,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$418,000, a decrease of 1% from the prior year. The Mental Health Fund balance at year ended increased by approximately \$209,000 over the prior year.
- Secondary Roads Fund expenditures increased by approximately \$258,000 over the prior year, due principally to an increase in roadway maintenance as the County continues to aggressively upgrade the condition of the County roadway system. This increase in expenditures resulted in a decrease in the Secondary Roads Fund ending balance of approximately \$157,000, or 11.6%.
- There were no significant changes in revenues, expenditures and the fund balance of the Debt Service Fund.
- During the year ended June 30, 2004, the County issued \$1 million of general obligation bonds to help finance an addition to the County courthouse. The proceeds from the bond issue were placed in a Capital Projects Fund set up to account for this major project. Approximately \$696,000 remained in the Capital Projects Fund at the end of the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Sample County amended its budget two times. The first amendment was made in March 2004 and resulted in an increase in budgeted disbursements related to a Community Development Block grant received from the State of Iowa. The grant, for the renovation of the courtroom and clerk's offices, involved a 25% County match. The project encountered a \$25,000 cost overrun. However, this did not result in an increase in taxes as the County received more intergovernmental revenues than originally budgeted and earned more interest on investments than originally projected. The second amendment was made on June 30, 2004. This amendment was made to provide for additional expenditures in certain County departments.

Even with these amendments, the County exceeded the budgeted amounts in the non-program and capital projects functions for the year ended June 30, 2004. The County forwarded certain grant proceeds to the City of Anywhere without budgeting for this activity.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Sample County had approximately \$31.8 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$1,491,000, or 4.9 percent over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	June 30,	
	2004	2003
Land	\$ 611	600
Buildings and improvements	566	563
Equipment and vehicles	1,334	964
Infrastructure	29,307	28,200
Total	\$ 31,818	30,327
This year's major additions included (in thousands):		
Capital assets contributed by the Iowa Department of Transportation		\$ 1,000
County road 55 reconstruction project		679
Replacement of two motorgraders and other secondary roads equipment		522
Courthouse improvement project		26
County Sheriff and conservation vehicles		147
Total		\$ 2,374

The County had depreciation expense of \$996,618 in FY04 and total accumulated depreciation of \$4,266,926 at June 30, 2004.

The County's fiscal year 2004 capital budget included \$1,500,000 for capital projects, principally for the addition to the County courthouse and for continued upgrading of secondary

roads and bridges. The County has no plans to issue additional debt to finance these projects. Rather, the County will use bond proceeds from this year and resources on hand in the County's fund balance. More detailed information about the County's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2004, Sample County had approximately \$1,617,000 in general obligation bonds and other debt outstanding compared to approximately \$252,000 at June 30, 2003, as shown below.

Outstanding Debt of Governmental Activities at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General obligation bonds	\$ 1,000	155
Capital lease purchase agreements	436	67
Drainage warrants and improvement certificates	140	-
Compensated absences	41	30
Total	\$ 1,617	252

Debt increased as a result of issuing general obligation bonds for the courthouse addition. In addition, the County entered into a capital lease purchase agreement to acquire two new motor graders.

The County continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the County's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Sample County's outstanding general obligation debt is significantly below its constitutional debt limit of \$26 million. Other obligations include accrued vacation pay and sick leave. Additional information about the County's long-term debt is presented in Note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Sample County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and the fees that will be charged for various County activities. One of those factors is the economy. The County's nonagricultural employment growth has mirrored its population growth during 1999-2004, averaging per year gains of 2.2 percent. Unemployment in the County now stands at 3.1 percent versus 3.2 percent a year ago. This compares with the State's unemployment rate of 3.4 percent and the national rate of 3.9 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$4.7 million, an increase of 6 percent over the final 2004 budget. Property tax (benefiting from the 2004 rate increase and increases in assessed valuations) and grant receipts (boosted by increased State funding in several of our current programs) are expected to lead this increase. Sample County will use these

increases in receipts to finance programs we currently offer and offset the effect we expect inflation to have on program costs. Budgeted disbursements are expected to rise by approximately \$125,000. Increased wage and cost-of-living adjustments, and increases in roadway construction and maintenance, represent the largest increases. The County has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the County's budgetary operating balance is expected to modestly increase by the close of 2005.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Sample County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sample County Auditor's Office, 101 Main Street, City of Anywhere, Iowa.

Sample County

Basic Financial Statements

Exhibit A

Sample County
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 4,249,860
Receivables:	
Property tax:	
Delinquent	116,176
Succeeding year	1,252,000
Interest and penalty on property tax	3,765
Accounts	53,371
Accrued interest	18,107
Drainage assessments	126,369
Due from other governments	196,179
Inventories	35,800
Prepaid insurance	103,011
Capital assets (net of accumulated depreciation)	31,817,920
Total assets	<u>37,972,558</u>
Liabilities	
Accounts payable	402,175
Accrued interest payable	5,397
Salaries and benefits payable	61,896
Contracts payable	350,420
Due to other governments	44,262
Deferred revenue:	
Succeeding year property tax	1,252,000
Other	24,380
Long-term liabilities:	
Portion due or payable within one year:	
Capital lease purchase agreements	97,629
General obligation bonds	130,000
Compensated absences	40,772
Portion due or payable after one year:	
Capital lease purchase agreements	337,948
General obligation bonds	870,000
Drainage warrants/drainage improvement certificates payable	140,213
Total liabilities	<u>3,757,092</u>
Net Assets	
Invested in capital assets, net of related debt	31,002,877
Restricted for:	
Supplemental levy purposes	844,607
Mental health purposes	366,344
Secondary roads purposes	1,185,195
Debt service	108,003
Capital projects	75,360
Other purposes	21,744
Unrestricted	611,336
Total net assets	<u>\$ 34,215,466</u>

See notes to financial statements.

Sample County
Statement of Activities
Year ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Functions / Programs:					
Governmental activities:					
Public safety and legal services	\$ 522,894	42,392	-	-	(480,502)
Physical health and social services	548,087	113,350	104,306	-	(330,431)
Mental health	418,123	-	12,490	-	(405,633)
County environment and education	262,611	13,077	542	-	(248,992)
Roads and transportation	2,168,397	88,283	1,090,228	1,000,000	10,114
Governmental services to residents	125,749	60,073	-	-	(65,676)
Administration	422,986	7,363	5,314	-	(410,309)
Non-program	597,293	113,148	-	305,000	(179,145)
Interest on long-term debt	44,487	-	-	-	(44,487)
Total	\$5,110,627	437,686	1,212,880	1,305,000	(2,155,061)
General Revenues:					
Property and other county tax levied for:					
General purposes					1,256,085
Debt service					154,358
Penalty and interest on property tax					54,337
State tax credits					320,244
Local option sales tax					579,180
Grants and contributions not restricted to specific purpose					392,431
Unrestricted investment earnings					211,173
Miscellaneous					45,609
Total general revenues					3,013,417
Change in net assets					858,356
Net assets beginning of year					33,357,110
Net assets end of year					\$ 34,215,466

See notes to financial statements.

Sample County
Balance Sheet
Governmental Funds

June 30, 2004

	General	Special Revenue	
		Mental Health	Rural Services
Assets			
Cash and pooled investments	\$ 1,252,793	321,960	49,955
Receivables:			
Property tax:			
Delinquent	48,973	20,238	42,915
Succeeding year	705,000	251,000	168,000
Interest and penalty on property tax	3,765	-	-
Accounts	3,018	-	-
Accrued interest	18,068	-	-
Drainage assessments	-	-	-
Due from other funds	6,922	-	-
Due from other governments	31,909	63,357	16,501
Inventories	-	-	-
Prepaid insurance	81,011	-	-
Total assets	\$ 2,151,459	656,555	277,371
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 21,627	15,779	76
Salaries and benefits payable	38,251	-	348
Contracts payable	-	-	-
Due to other funds	29,411	-	6,922
Due to other governments	20,592	23,432	-
Deferred revenue:			
Succeeding year property tax	705,000	251,000	168,000
Other	62,856	18,791	39,089
Total liabilities	877,737	309,002	214,435
Fund balances:			
Reserved for:			
Supplemental levy purposes	811,627	-	32,980
Drainage warrants/drainage improvement certificates	-	-	-
Debt service	-	-	-
Resource enhancement and protection	6,185	-	-
Cemetery levy	973	-	-
Unreserved, reported in:			
General fund	454,937	-	-
Special revenue funds	-	347,553	29,956
Capital projects fund	-	-	-
Total fund balances	1,273,722	347,553	62,936
Total liabilities and fund balances	\$ 2,151,459	656,555	277,371

See notes to financial statements.

Secondary Roads	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
1,345,226	109,350	1,050,750	30,276	4,160,310
-	4,050	-	-	116,176
-	128,000	-	-	1,252,000
-	-	-	-	3,765
12,981	-	23,110	-	39,109
-	-	-	39	18,107
-	-	-	126,369	126,369
29,261	-	-	150	36,333
84,412	-	-	-	196,179
35,800	-	-	-	35,800
22,000	-	-	-	103,011
1,529,680	241,400	1,073,860	156,834	6,087,159
282,412	-	27,546	2,035	349,475
23,297	-	-	-	61,896
-	-	350,420	-	350,420
-	-	-	-	36,333
238	-	-	-	44,262
-	128,000	-	-	1,252,000
24,380	3,645	-	119,528	268,289
330,327	131,645	377,966	121,563	2,362,675
-	-	-	-	844,607
-	-	-	20,685	20,685
-	109,755	-	-	109,755
-	-	-	-	6,185
-	-	-	-	973
-	-	-	-	454,937
1,199,353	-	-	14,586	1,591,448
-	-	695,894	-	695,894
1,199,353	109,755	695,894	35,271	3,724,484
1,529,680	241,400	1,073,860	156,834	6,087,159

Sample County

Sample County
Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets

June 30, 2004

Total governmental fund balances (page 21) \$ 3,724,484

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$36,084,846 and the accumulated depreciation is \$4,266,926. 31,817,920

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 243,909

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 51,112

Long-term liabilities, including capital lease purchase agreements payable, bonds payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,621,959)

Net assets of governmental activities (page 18) \$ 34,215,466

See notes to financial statements.

Sample County
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

		Special Revenue		
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 977,793	285,468	568,271	-
Interest and penalty on property tax	54,093	-	-	-
Intergovernmental	764,204	341,883	107,338	1,090,228
Licenses and permits	4,280	-	-	700
Charges for service	113,692	-	-	32,160
Use of money and property	182,499	-	-	2,550
Fines, forfeitures and defaults	9,878	-	-	-
Miscellaneous	37,049	-	-	10,849
Total revenues	2,143,488	627,351	675,609	1,136,487
Expenditures:				
Operating:				
Public safety and legal services	525,514	-	-	-
Physical health and social services	547,808	-	-	-
Mental health	-	418,265	-	-
County environment and education	170,769	-	85,747	-
Roads and transportation	-	-	-	1,819,597
Governmental services to residents	115,656	-	-	-
Administration	423,047	-	-	-
Non-program	386,410	-	-	-
Debt service	-	-	-	105,800
Capital projects	22,535	-	-	469,566
Total expenditures	2,191,739	418,265	85,747	2,394,963
Excess (deficiency) of revenues over (under) expenditures	(48,251)	209,086	589,862	(1,258,476)
Other financing sources (uses):				
Sale of capital assets	1,630	-	-	-
Operating transfers in	-	-	-	636,299
Operating transfers out	(50,139)	-	(586,160)	-
Capital lease purchase agreement	-	-	-	465,515
General obligation bonds issued	-	-	-	-
Drainage warrants/drainage improvement certificates issued	-	-	-	-
Total other financing sources (uses)	(48,509)	-	(586,160)	1,101,814
Net change in fund balances	(96,760)	209,086	3,702	(156,662)
Fund balances beginning of year	1,370,482	138,467	59,234	1,356,015
Fund balances end of year	\$ 1,273,722	347,553	62,936	1,199,353

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor Special Revenue	Total
154,311	-	-	1,985,843
-	-	-	54,093
17,689	-	-	2,321,342
-	-	-	4,980
-	-	13,500	159,352
5,458	19,417	91	210,015
-	-	-	9,878
-	55,943	84,050	187,891
177,458	75,360	97,641	4,933,394
-	-	-	525,514
-	-	-	547,808
-	-	-	418,265
-	-	-	256,516
-	-	-	1,819,597
-	-	11,050	126,706
-	-	-	423,047
-	-	210,883	597,293
170,043	-	-	275,843
-	379,466	-	871,567
170,043	379,466	221,933	5,862,156
7,415	(304,106)	(124,292)	(928,762)
-	-	-	1,630
-	-	-	636,299
-	-	-	(636,299)
-	-	-	465,515
-	1,000,000	-	1,000,000
-	-	140,213	140,213
-	1,000,000	140,213	1,607,358
7,415	695,894	15,921	678,596
102,340	-	19,350	3,045,888
109,755	695,894	35,271	3,724,484

Sample County
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement
of Activities

Year ended June 30, 2004

Net change in fund balances - Total governmental funds (page 25) \$ 678,596

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 1,489,521	
Capital assets contributed by the Iowa Department of Transportation	1,000,000	
Depreciation expense	(996,618)	1,492,903

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (1,630)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property tax	4,024	
Other	21,192	25,216

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments as follows:

Issued	(1,605,728)	
Repaid	251,690	(1,354,038)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(10,312)	
Interest on long-term debt	(4,143)	(14,455)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

31,764

Change in net assets of governmental activities (page 19)

\$ 858,356

See notes to financial statements.

Sample County
Statement of Net Assets
Proprietary Fund
June 30, 2004

		<u>Internal Service - Employee Group Health</u>
Assets		
Cash and cash equivalents	\$	89,550
Accounts receivable		<u>14,262</u>
Total assets		103,812
Liabilities		
Accounts payable		<u>52,700</u>
Net Assets		
Unrestricted	\$	<u><u>51,112</u></u>

See notes to financial statements.

Sample County
Statement of Revenues, Expenses and Changes
in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

		<u>Internal Service - Employee Group Health</u>
Operating revenues:		
Reimbursements from operating funds		\$ 184,313
Reimbursements from employees		71,715
Insurance reimbursements		14,110
Total operating revenues		<u>270,138</u>
Operating expenses:		
Medical claims	\$ 189,500	
Insurance premiums	42,000	
Administrative fees	5,700	
Miscellaneous	2,332	239,532
Operating income		<u>30,606</u>
Non-operating revenues:		
Interest income		1,158
Net income		<u>31,764</u>
Net assets beginning of year		<u>19,348</u>
Net assets end of year		<u><u>\$ 51,112</u></u>

See notes to financial statements.

Sample County
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2004

	Internal Service - Employee Group Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 184,313
Cash received from employees and others	71,715
Cash paid to suppliers for services	(230,284)
Net cash provided by operating activities	<u>25,744</u>
Cash flows from investing activities:	
Interest on investments	<u>1,158</u>
Net increase in cash and cash equivalents	26,902
Cash and cash equivalents beginning of year	<u>62,648</u>
Cash and cash equivalents end of year	<u><u>\$ 89,550</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 30,606
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) in accounts receivable	(14,262)
Increase in accounts payable	<u>9,400</u>
Net cash provided by operating activities	<u><u>\$ 25,744</u></u>

See notes to financial statements.

Sample County
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

Cash and pooled investments:	
County Treasurer	\$ 274,468
Other County officials	6,503
Property tax receivable:	
Delinquent	406,661
Succeeding year	5,770,000
Due from other governments	19,761
Total assets	<u>6,477,393</u>

Liabilities

Accounts payable	1,189
Salaries and benefits payable	2,336
Due to other governments	6,434,512
Trusts payable	38,462
Compensated absences	894
Total liabilities	<u>6,477,393</u>

Net assets	<u><u>\$ -</u></u>
-------------------	--------------------

See notes to financial statements.

Sample County
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

Sample County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

These financial statements present Sample County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities which are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Twenty-three drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled, managed and supervised by the Sample County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Sample County Auditor's Office.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: County Assessor's Conference Board, County Emergency Management Commission, County Public Safety Commission and County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the County's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund is charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Drainage Assessments Receivable – Drainage assessments receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Delinquent drainage assessments receivable represent assessments which are due and payable but have not been collected. Succeeding year drainage assessments receivable represents remaining assessments which are payable but not yet due.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 50,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	40 - 50
Building improvements	20 - 50
Infrastructure	30 - 50
Equipment	2 - 20
Vehicles	3 - 10

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-term liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the non-program and capital projects functions and disbursements in certain departments exceeded the amounts appropriated.

(2) Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County's investments are categorized to give an indication of the level of risk assumed by the County at year end. The County's investments are all Category 1, which means the investments are insured or registered or the securities are held by the County or its agent in the County's name.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The County's investments at June 30, 2004 are as follows:

Type	Fair Value
U.S. government securities	<u>\$ 203,987</u>

In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$505,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue: Rural Services	\$ 6,922
Special Revenue: Secondary Roads	General	29,261
County Recorder's Records Management	General	150
Total		<u>\$ 36,333</u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Secondary Roads	General	\$ 50,139
	Special Revenue: Rural Services	586,160
Total		<u>\$ 636,299</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 600,250	10,800	-	611,050
Construction in progress	-	379,466	-	379,466
Total capital assets not being depreciated	600,250	390,266	-	990,516
Capital assets being depreciated:				
Buildings	1,102,636	25,745	-	1,128,381
Improvements other than buildings	22,793	-	-	22,793
Equipment and vehicles	1,927,365	745,510	(57,719)	2,615,156
Infrastructure, road network	30,000,000	1,328,000	-	31,328,000
Total capital assets being depreciated	33,052,794	2,099,255	(57,719)	35,094,330
Less accumulated depreciation for:				
Buildings	553,315	22,568	-	575,883
Improvements other than buildings	9,400	456	-	9,856
Equipment and vehicles	963,682	373,594	(56,089)	1,281,187
Infrastructure, road network	1,800,000	600,000	-	2,400,000
Total accumulated depreciation	3,326,397	996,618	(56,089)	4,266,926
Total capital assets being depreciated, net	29,726,397	1,102,637	(1,630)	30,827,404
Governmental activities capital assets, net	\$ 30,326,647	1,492,903	(1,630)	31,817,920

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 41,716
Physical health and social services	8,353
Mental health	1,480
County environment and education	6,711
Roads and transportation	881,070
Governmental services to residents	735
Administration	56,553
Total depreciation expense - governmental activities	\$ 996,618

(6) Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$ 20,592
Special Revenue:		
Mental Health	Services	23,432
Secondary Roads	Services	238
		<u>23,670</u>
Total for governmental funds		<u>\$ 44,262</u>
Agency:		
County Assessor	Collections	\$ 225,008
Schools		4,857,590
Community Colleges		212,112
Corporations		879,412
Auto License and Use Tax		71,593
All other		<u>188,797</u>
Total for agency funds		<u>\$ 6,434,512</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Capital Lease Purchase Agreements	General Obligation Bonds	Drainage Warrants	Drainage Improvement Certificates	Compen- sated Absences	Total
Balance beginning of year	\$ 66,752	155,000	-	-	30,460	252,212
Increase	465,515	1,000,000	118,948	21,265	47,812	1,653,540
Decreases	96,690	155,000	-	-	37,500	289,190
Balance end of year	<u>\$ 435,577</u>	<u>1,000,000</u>	<u>118,948</u>	<u>21,265</u>	<u>40,772</u>	<u>1,616,562</u>
Due within one year	<u>\$ 97,629</u>	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>40,772</u>	<u>268,401</u>

Capital Lease Purchase Agreements

The County has entered into capital lease purchase agreements to lease a telephone system and two motor graders with historical costs of \$56,000 and \$575,000, respectively. The following is a schedule of the future minimum lease payments, including interest ranging from 5.09% to 5.50% per annum, and the present value of net minimum lease payments under the agreements in effect at June 30, 2004:

Year ending June 30,	Telephone System	Motor Graders	Total
2005	\$ 9,605	120,904	130,509
2006	9,605	120,904	130,509
2007	9,605	120,904	130,509
2008	802	120,904	121,706
Total minimum lease payments	29,617	483,616	513,233
Less amount representing interest	(3,644)	(74,012)	(77,656)
Present value of net minimum lease payments	\$ 25,973	409,604	435,577

Payments under capital lease purchase agreements totaled \$115,405 for the year ended June 30, 2004.

Bonds Payable

A summary of the County's June 30, 2004 general obligation bonded indebtedness is as follows:

Year ending June 30,	Interest Rates	Principal	Interest	Total
2005	7.00%	\$ 130,000	64,760	194,760
2006	7.30	130,000	65,209	195,209
2007	7.50	140,000	58,551	198,551
2008	7.75	140,000	50,460	190,460
2009	8.00	150,000	41,047	191,047
2010	8.00	150,000	28,390	178,390
2011	8.00	160,000	14,700	174,700
Total		\$ 1,000,000	323,117	1,323,117

During the year ended June 30, 2004, the County issued \$1,000,000 in general obligation bonds and retired \$155,000 of bonds.

Drainage Warrants/Drainage Improvement Certificates Payable

Drainage warrants are warrants which are legally drawn on drainage district funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented. Warrants will be paid as funds are available.

Drainage improvement certificates payable represent amounts due to purchasers of drainage improvement certificates. Drainage improvement certificates are waivers that provide for a landowner to pay an improvement assessment in installment payments over a designated number of years with interest at a designated interest rate. The improvement certificates representing those assessments or installments due from the landowner are sold for cash as interest bearing certificates. Funds received from the sale of certificates are used to pay outstanding registered warrants issued to contractors who perform work on drainage district improvements and registered warrants issued for other related costs. Drainage improvement certificates are redeemed and interest paid to the bearer of the certificate upon receipt of the installment payment plus interest, from the landowner.

Drainage warrants and drainage improvement certificates are paid from the Special Revenue Fund solely from drainage assessments against benefited properties.

(8) Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by state statute. The County's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$88,430, \$88,136 and \$76,159, respectively, equal to the required contributions for each year.

(9) Risk Management

Sample County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$55,989.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Employee Health Insurance Plan

The Internal Service, Employee Group Health Fund was established to account for the partial self funding of the County's health insurance benefit plan. The plan is funded by both employee and County contributions and is administered through a service agreement with Wellmark. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitation of \$20,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Wellmark from the Employee Group Health Fund. The County's contribution for the year ended June 30, 2004 was \$184,313.

Amounts payable from the Employee Group Health Fund at June 30, 2004 total \$52,700, which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$51,112 at June 30, 2004 and is reported as a designation of the Internal Service, Employee Group Health Fund retained earnings. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims beginning of year	\$ 43,300
Included claims (including claims incurred but not reported at June 30, 2004):	
Current year events	194,500
Prior year events	(5,000)
Total incurred claims	189,500
Payments:	
Current year events	141,800
Prior year events	38,300
Total payments	180,100
Unpaid claims end of year	\$ 52,700

(11) Construction Commitment

The County has entered into a contract totaling \$1,058,042 for bridge construction and roadway paving. As of June 30, 2004, costs of \$350,420 on the project have been incurred. The balance remaining on the project at June 30, 2004 (\$707,622) will be paid as work on the projects progresses.

The County has also entered into contracts totaling \$972,600 for Courthouse renovations. As of June 30, 2004, costs of \$362,750 on the project have been incurred. The \$609,850 balance remaining on the project at June 30, 2004 will be paid as work on the project progresses.

(12) Jointly Governed Organization

Sample County participates in the Sample County Public Safety Commission, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Financial transactions of this organization are included in the County's financial statements as part of the Other Agency Funds because of the County's fiduciary relationship with the organization. The following financial data is for the year ended June 30, 2004:

Additions:

Contributions from governmental units:

Sample County	\$	50,288	
Twinville		29,111	
Springfield		24,845	
Sunset Valley		8,615	
River City		7,200	\$ 120,059
Miscellaneous			1,110
Total additions			<u>121,169</u>

Deductions:

Salaries		86,534	
Benefits		19,244	
Office supplies		1,138	
Uniforms		1,012	
Telephone		5,528	
Travel		321	
Training		158	
Equipment repair		3,044	
Insurance		940	
Miscellaneous		558	118,477
			<u>118,477</u>

Net		2,692
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Balance beginning of year		<u>17,412</u>
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Balance end of year		<u><u>\$ 20,104</u></u>
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Sample County

Required Supplementary Information

Sample County

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) – All Governmental Funds

Required Supplementary Information

Year ended June 30, 2004

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property and other County tax	\$ 1,834,708	-
Interest and penalty on property tax	56,505	-
Intergovernmental	2,093,032	-
Licenses and permits	4,980	-
Charges for service	163,852	-
Use of money and property	187,140	-
Miscellaneous	351,062	79,952
Total receipts	<u>4,691,279</u>	<u>79,952</u>
Disbursements:		
Public safety and legal services	457,082	-
Physical health and social services	458,860	-
Mental health	417,991	-
County environment and education	172,270	-
Roads and transportation	1,899,299	-
Governmental services to residents	102,708	-
Administration	414,035	-
Non-program	660,020	208,948
Debt service	275,843	-
Capital projects	228,725	-
Total disbursements	<u>5,086,833</u>	<u>208,948</u>
Deficiency of receipts under disbursements	(395,554)	(128,996)
Other financing sources, net	<u>1,607,358</u>	<u>140,213</u>
Excess of receipts and other financing sources over disbursements and other financing uses	1,211,804	11,217
Balance beginning of year	<u>2,944,391</u>	<u>4,562</u>
Balance end of year	<u>\$ 4,156,195</u>	<u>15,779</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,834,708	1,836,173	1,836,173	(1,465)
56,505	54,255	54,255	2,250
2,093,032	1,856,547	2,086,200	6,832
4,980	5,000	5,000	(20)
163,852	123,900	162,800	1,052
187,140	105,050	150,300	36,840
271,110	65,936	142,225	128,885
4,611,327	4,046,861	4,436,953	174,374
457,082	422,500	471,014	13,932
458,860	578,055	580,055	121,195
417,991	495,000	498,975	80,984
172,270	177,500	179,399	7,129
1,899,299	1,819,344	1,980,215	80,916
102,708	112,907	113,962	11,254
414,035	448,500	477,965	63,930
451,072	250,000	320,800	(130,272)
275,843	276,800	276,800	957
228,725	345,000	128,900	(99,825)
4,877,885	4,925,606	5,028,085	150,200
(266,558)	(878,745)	(591,132)	324,574
1,467,145	1,000,000	1,465,515	1,630
1,200,587	121,255	874,383	326,204
2,939,829	2,700,659	2,886,300	53,529
4,140,416	2,821,914	3,760,683	379,733

Sample County
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 4,691,279	242,115	4,933,394
Expenditures	5,086,833	775,323	5,862,156
Net	(395,554)	(533,208)	(928,762)
Other financing sources, net	1,607,358	-	1,607,358
Beginning fund balances	2,944,391	101,497	3,045,888
Ending fund balances	\$ 4,156,195	(431,711)	3,724,484

See accompanying independent auditor's report.

Sample County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$102,479. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the non-program and capital projects functions and disbursements in certain departments exceeded the amounts appropriated

Sample County

Other Supplementary Information

Sample County
Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2004

	County Recorder's Records Management	Drainage Districts
Assets		
Cash and pooled investments	\$ 7,450	15,779
Receivables:		
Accrued interest	-	-
Drainage assessments	-	126,369
Due from other funds	150	-
Total assets	\$ 7,600	142,148
Liabilities and Fund Equity		
Liabilities:		
Accounts payable	\$ 100	1,935
Deferred revenue	-	119,528
Total liabilities	100	121,463
Fund equity:		
Fund balances:		
Reserved for drainage warrants/drainage improvement certificates	-	20,685
Unreserved	7,500	-
Total fund equity	7,500	20,685
Total liabilities and fund equity	\$ 7,600	142,148

See accompanying independent auditor's report.

Conservation Land Acquisition Trust	Memorial Trust	Total
3,391	3,656	30,276
39	-	39
-	-	126,369
-	-	150
3,430	3,656	156,834
-	-	2,035
-	-	119,528
-	-	121,563
-	-	20,685
3,430	3,656	14,586
3,430	3,656	35,271
3,430	3,656	156,834

Sample County
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2004

	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	Drainage Districts
Revenues:			
Charges for service	\$ 3,500	10,000	-
Use of money and property	50	-	-
Miscellaneous	-	-	80,793
Total revenues	3,550	10,000	80,793
Expenditures:			
Operating:			
Governmental services to residents	1,050	10,000	-
Non-program	-	-	210,883
Total expenditures	1,050	10,000	210,883
Excess (deficiency) of revenues over (under) expenditures	2,500	-	(130,090)
Other financing sources:			
Drainage warrant/drainage improvement certificate proceeds	-	-	140,213
Excess of revenues and other financing sources over expenditures	2,500	-	10,123
Fund balances beginning of year	5,000	-	10,562
Fund balances end of year	\$ 7,500	-	20,685

See accompanying independent auditor's report.

Conservation Land Acquisition Trust	Memorial Trust	Total
-	-	13,500
-	41	91
542	2,715	84,050
542	2,756	97,641
-	-	11,050
-	-	210,883
-	-	221,933
542	2,756	(124,292)
-	-	140,213
542	2,756	15,921
2,888	900	19,350
3,430	3,656	35,271

Sample County
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor
Assets			
Cash and pooled investments:			
County Treasurer	\$ -	546	101,276
Other county officials	6,503	-	-
Receivables:			
Property tax:			
Delinquent	-	3,695	6,569
Succeeding year	-	53,000	119,000
Due from other governments	-	-	-
Total assets	\$ 6,503	57,241	226,845
Liabilities			
Accounts payable	\$ -	-	923
Salaries and benefits payable	-	-	586
Due to other governments	1,371	57,241	225,008
Trusts payable	5,132	-	-
Compensated absences	-	-	328
Total liabilities	\$ 6,503	57,241	226,845

See accompanying independent auditor's report.

Schools	Community Colleges	Corpor- ations	Townships	Auto License and Use Tax	Other	Total
43,380	1,985	9,749	782	71,593	45,157	274,468
-	-	-	-	-	-	6,503
314,210	15,127	59,663	7,235	-	162	406,661
4,500,000	195,000	810,000	91,000	-	2,000	5,770,000
-	-	-	-	-	19,761	19,761
4,857,590	212,112	879,412	99,017	71,593	67,080	6,477,393
-	-	-	-	-	266	1,189
-	-	-	-	-	1,750	2,336
4,857,590	212,112	879,412	99,017	71,593	31,168	6,434,512
-	-	-	-	-	33,330	38,462
-	-	-	-	-	566	894
4,857,590	212,112	879,412	99,017	71,593	67,080	6,477,393

Sample County
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds

Year ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances beginning of year	\$ 7,491	57,050	222,711	4,806,874
Additions:				
Property and other county tax	-	52,400	118,785	4,498,380
E911 surcharge	-	-	-	-
State tax credits	-	8,585	14,436	688,188
State allocation	-	-	3,001	-
Drivers license fees	-	-	-	-
Office fees and collections	84,785	-	-	-
Electronic transaction fee	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-
Assessments	-	-	-	-
Trusts	66,773	-	-	-
Miscellaneous	-	-	258	-
Total additions	151,558	60,985	136,480	5,186,568
Deductions:				
Agency remittances:				
To other funds	42,048	-	-	-
To other governments	42,857	60,794	132,346	5,135,852
Trusts paid out	67,641	-	-	-
Total deductions	152,546	60,794	132,346	5,135,852
Balances end of year	\$ 6,503	57,241	226,845	4,857,590

See accompanying independent auditor's report.

Community Colleges	Corpora- tions	Townships	City Special Assess- ments	Auto License and Use Tax	Other	Total
217,010	856,220	98,012	-	43,166	75,527	6,384,061
194,784	807,666	90,028	-	-	1,973	5,764,016
-	-	-	-	-	105,430	105,430
31,646	145,039	13,507	-	-	356	901,757
-	-	-	-	-	-	3,001
-	-	-	-	28,362	-	28,362
-	-	-	-	-	-	84,785
-	-	-	-	-	50,000	50,000
-	-	-	-	913,111	2,778	915,889
-	-	-	13,487	-	-	13,487
-	-	-	-	-	226,553	293,326
-	-	-	-	-	170,968	171,226
226,430	952,705	103,535	13,487	941,473	558,058	8,331,279
-	-	-	-	28,710	-	70,758
231,328	929,513	102,530	13,487	884,336	322,714	7,855,757
-	-	-	-	-	243,791	311,432
231,328	929,513	102,530	13,487	913,046	566,505	8,237,947
212,112	879,412	99,017	-	71,593	67,080	6,477,393

Schedule 5

Sample County

Schedule of Revenues By Source and Expenditures By Function -
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Property and other county tax	\$ 1,985,843	1,890,127	1,862,510	1,753,800
Interest and penalty on property tax	54,093	52,310	51,390	52,010
Intergovernmental	2,321,342	1,973,318	1,875,500	1,798,900
Licenses and permits	4,980	4,822	4,811	4,750
Charges for service	159,352	162,412	170,310	169,315
Use of money and property	210,015	251,100	222,400	241,318
Fines, forfeitures and defaults	9,878	9,313	9,101	9,002
Miscellaneous	187,891	366,909	200,019	211,315
Total	\$ 4,933,394	4,710,311	4,396,041	4,240,410
Expenditures:				
Operating:				
Public safety and legal services	\$ 525,514	511,129	509,320	496,300
Physical health and social services	547,808	539,315	541,318	529,217
Mental health	418,265	421,835	417,300	408,311
County environment and education	256,516	276,903	276,315	281,000
Roads and transportation	1,819,597	1,910,108	1,746,500	1,712,510
Governmental services to residents	126,706	127,100	125,920	124,800
Administration	423,047	417,129	410,318	409,812
Non-program	597,293	646,822	612,400	609,341
Debt service	275,843	260,100	255,000	265,100
Capital projects	871,567	472,000	518,100	422,300
Total	\$ 5,862,156	5,582,441	5,412,491	5,258,691

See accompanying independent auditor's report.

Sample County

Schedule 6

Sample County
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture:			
Watershed Protection and Flood Prevention	10.904	68-6115-5-199	<u>\$ 159,186</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Health:			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	5881A199	<u>1,161</u>
Iowa Department of Human Services:			
Human Services Administrative Reimbursements:			
State Administrative Matching Grants for Food Stamp Program	10.561		<u>1,325</u>
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	03-ED-199	<u>305,000</u>
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Public Assistance Grants	97.036	1230 DRIA 099	<u>51,350</u>
U. S. Department of Health and Human Services:			
Iowa Department of Human Services:			
Family Support Payments to States - Assistance Payments	93.560		<u>4,594</u>
Human Services Administrative Reimbursements:			
Temporary Assistance for Needy Families	93.558		<u>2,976</u>
Refugee and Entrant Assistance - State Administered Programs	93.566		<u>43</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		<u>125</u>
Foster Care - Title IV-E	93.658		<u>617</u>
Adoption Assistance	93.659		<u>168</u>
Medical Assistance Program	93.778		<u>2,565</u>
Social Services Block Grant	93.667		<u>1,919</u>
Social Services Block Grant	93.667		<u>47,856</u>
			<u>49,775</u>
Total			<u><u>\$ 578,885</u></u>

Sample County

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sample County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Sample County



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Officials of Sample County:

We have audited the financial statements of Sample County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sample County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item IV-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample County and other parties to whom Sample County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance**

Sample County



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Officials of Sample County:

Compliance

We have audited the compliance of Sample County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Sample County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of Sample County's management. Our responsibility is to express an opinion on Sample County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sample County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sample County's compliance with those requirements.

In our opinion, Sample County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of Sample County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sample County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Sample County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described as items III-B-04 and III-C-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-B-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Sample County and other parties to whom Sample County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

Sample County
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sample County did not qualify as a low-risk auditee.

Sample County
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCE OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements.

One individual in the County Treasurer's office has custody of receipts and performs all record-keeping and reconciling functions for the office, including those related to all federal programs.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the County Treasurer should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the Deputy Treasurer will be separated and spread among the County Treasurer, Deputy Treasurer and Clerk. We plan to implement these changes by October 31, 2004.

Conclusion – Response accepted.

- II-B-04 Financial Reporting – Procedures were not in place to verify the accuracy of financial reports and to ensure timely submission, including federal financial status reports for the Watershed Protection and Flood Prevention program. See item III-C-04.
- II-C-04 Information Systems – During our review of internal control, the existing control activities in the County's computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the County's computer based systems were noted:

The County does not have written policies for:

- password privacy and confidentiality.

Sample County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- requiring password changes because software does not require the user to change log-ins/passwords periodically.
- ensuring only software licensed to the County is installed on computers.
- usage of the internet.
- requiring the use of an anti-virus program on computers.
- requiring user profiles to help limit access to programs to those who have a legitimate need.
- personal use of computer equipment and software.

Also, the County does not have a written disaster recovery plan and does not require back up tapes to be stored off site daily in a fire proof vault or safe.

Recommendation – The County should develop written policies addressing the above items in order to improve the County's control over computer based systems. A written disaster recovery plan should be developed and back-up tapes should be stored off site daily in a fireproof vault or safe.

Response – The County will comply in the future with these recommendations. County officials have discussed and agree that these policies are needed.

Conclusion – Response accepted.

Sample County
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 03-ED-199
Federal Award Year: 2003
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-A-04 Unsupported Expenditures – All federal costs are to be properly documented and supported in accordance with OMB Circular A-87. Equipment costs of \$1,541 and labor costs of \$450 on site number 42 and equipment costs of \$10,589 on site number 41 were claimed but were not properly supported. As a result, the County was reimbursed \$12,580 in federal funds in excess of the amount authorized under the program. The scope of our testing included 25 out of 100 sites and \$532,000 out of \$2,765,000 total expenditures.

Recommendation – The County should implement procedures to ensure expenditures are properly supported. In addition, the County should contact the Iowa Department of Economic Development to determine the appropriate resolution of the questioned costs.

Response – We will revise our procedures so that documentation (e.g. invoices and time cards) is maintained to support federal expenditures. We returned the \$12,580 in questioned costs to the Iowa Department of Economic Development on October 1, 2004.

Conclusion – Response accepted.

REPORTABLE CONDITIONS:

CFDA Number 14.228: Community Development Block Grants/State's Program
Pass-through Agency Number: 03-ED-199
Federal Award Year: 2003
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development

III-B-04 Segregation of Duties over Federal Revenues – The County Treasurer did not properly segregate custody, record-keeping and reconciling functions for revenues, including those related to federal programs. See item II-A-04.

Sample County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

III-C-04 Financial Reporting – Financial reports were prepared by the County Conservation Director’s secretary, but there was no independent verification or reconciliation of information presented. In addition, the grant agreement for the Watershed Protection and Flood Prevention program requires the County to submit quarterly reports showing all federal activity within one month of the end of the quarter. None of the four quarterly reports were submitted timely and numerous errors resulted in variances between reported and actual activity of up to \$15,000. The County submitted corrected reports for all quarters and, accordingly, there were no questioned costs.

Recommendation – The County should implement procedures that provide for an independent review of financial reports for accuracy and completeness. In addition, the County should establish procedures to ensure timely remittance of federal financial reports in accordance with grant requirements.

Response – We agree with the auditor’s recommendation and will comply. Beginning November 1, 2004, the County Conservation Director will review financial reports for accuracy, completeness and timely remittance.

Conclusion – Response accepted.

Sample County
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year, except for deposits at First National Bank. The maximum authorized amount of \$2,000,000 was exceeded in October 2003 by approximately \$200,000.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board.

Response – On September 15, 2004, the Board of Supervisors increased the maximum authorized deposit amount at First National Bank to \$3,000,000.

Conclusion – Response accepted.

- IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the non-program and capital projects functions. Disbursements in certain departments exceeded the amounts appropriated.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will amend the budget when required and appropriations will be watched more closely by the departments.

Conclusion – Response accepted.

- IV-C-04 Questionable Expenditures – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

Paid to	Purpose	Amount
Anywhere Flower Shop	Flower arrangements for gifts	\$ 332
Anywhere Quick Shop	Pop and food for County employees	239

Sample County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Board of Supervisors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the County should establish written policies and procedures, including requirements for proper documentation.

Response – We will document this in the future.

Conclusion – Response accepted.

IV-D-04 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-04 Business Transactions – No business transactions between the County and County officials or employees were noted.

IV-F-04 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions, except the County Treasurer was only bonded for \$25,000.

Recommendation – The Treasurer's bond should be increased to \$50,000 as required by Chapter 64.10 of the Code of Iowa. Also, the amount of all bonds should be periodically reviewed to ensure the coverage is adequate for current operations.

Response – We will comply.

Conclusion – Response accepted.

IV-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, the Board went into closed session on May 1, 2004 to discuss matters relating to the County. The minutes record did not document the vote of each member on the question of holding the closed session as required by Chapter 21.5(2) of the Code of Iowa.

Recommendation – The Board of Supervisors should ensure all closed meetings comply with Chapter 21 of the Code of Iowa.

Response – This was an oversight. We usually record the vote as required and will do so in the future.

Conclusion – Response accepted.

Sample County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- IV-I-04 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- IV-J-04 Economic Development – During the year ended June 30, 2004, the County paid \$1,400 to the Sample County Improvement Association which may not be an appropriate expenditure of public funds since the public benefits to be derived have not been clearly documented.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Board should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require documentation of how the funds were used to accomplish economic development activities.

Response – We will obtain the necessary documentation for past expenditures and will consider these requirements in the future.

Conclusion – Response accepted.

- IV-K-04 Capital Lease Purchase Agreements – During the year ended June 30, 2004, the County entered into a capital lease purchase agreement for the purchase of two motor graders for the Secondary Roads department. However, a public hearing was not held prior to the authorization of this lease purchase agreement as required by Chapter 331.301(10)(e) or Chapters 331.478 and 331.479 of the Code of Iowa.

Recommendation – The County should consult legal counsel for the disposition of this matter. In the future, the County should hold a public hearing prior to the authorization of a lease purchase agreement in accordance with Chapter 331.301(10)(e) or Chapters 331.478 and 331.479 of the Code of Iowa.

Response – We will consult legal counsel and this will be complied with in the future.

Conclusion – Response accepted.

Sample County

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-L-04 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

The County Extension Office received 4-H donations. These receipts were not reflected in the Extension Council's accounting system and have not been included in the annual budget or monthly financial reports. Disbursements from these proceeds were not approved by the Extension Council prior to payment.

Recommendation – This activity should be included in the Extension Council's annual budget and financial statements. All disbursements should be approved by the Council prior to payment.

Response – We will include this activity in our financial reports and annual budget starting next fiscal year.

Conclusion – Response accepted.

Sample County

Staff

This audit was performed by:

John Q. Review, CPA, Manager
Terry Tickmark, CPA, Senior Auditor
Margo Setter, CPA, Senior Auditor
Jerome Warning, CPA, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State